

FUNCTION 050: NATIONAL DEFENSE

The National Defense budget function includes the Department of Defense (DOD) in subfunction 051 (about 95 percent of total function costs), Atomic Energy Defense Activities in the Department of Energy (DOE) in subfunction 053 (about 5 percent of the total), and other defense activities in the Federal Emergency Management Agency, the Selective Service, the General Services Administration, and other agencies in subfunction 054 (less than 1 percent).

(\$ Billions)							
	1999 Actuals	2000	2001	2002	2003	2004	2005
President's Budget:							
Budget authority	292.1	293.3	305.4	309.2	315.6	323.4	331.7
Outlays	274.9	290.6	291.2	298.4	307.4	316.5	330.7
OMB Baseline:							
Budget authority	---	291.0	300.2	307.9	315.3	323.2	331.2
Outlays	---	284.3	294.3	299.6	309.1	317.7	325.6
Budget compared to OMB Baseline:							
Budget authority	---	2.3	5.2	1.4	0.3	0.2	0.5
Outlays	---	6.3	-3.1	-1.2	-1.7	-1.2	5.1

The President's 2001 budget increases BA for National Defense by \$12.1 billion from \$293.3 billion in 2000 to \$305.4 billion in 2001. This is 4.1 percent nominal growth; it is 2.1 percent real growth, assuming OMB's projected 2.0 percent GDP Price index inflation in 2001. This will be the first time any President has requested real growth in the defense budget since 1985.

The President's 2001 defense budget includes the following major characteristics:

- < Readiness: While other portions of defense spending are important, how well trained and equipped our military personnel are to enter combat is DoD's most important mission. The training, spare parts, weapons maintenance, and facility repairs essential to readiness are funded in the Operations and Maintenance (O&M) budget. Since 1997, it has been common knowledge that US combat forces are experiencing multiple, serious readiness problems.

2 BUDGET BY FUNCTION

The 2001 request for O&M shows what appears to be much needed real growth from 2000; the 2001 O&M budget grows nominally by 4.2 percent from \$104.9 billion to \$109.3. This increase calculates to 2.1 percent real growth. Unfortunately, this apparent growth above inflation is an illusion. According to a CBO analysis, the cost of readiness per soldier has been increasing per year at a historic average rate of about 2.5 percent.¹ Thus, all of the “real” increase, and more, in O&M is consumed by predictable program cost growth.

Also, although Congress has added funds to the DoD budget since 1995, both official and unofficial reports continue that there is no light at the end of the readiness tunnel.² The reasons for the decline become apparent when one compares assertions that O&M spending is increasing and what portion, if any, of that “growth” is real. The problems have become so deep and broad that only a massive infusion of funds – directed specifically at readiness spending – will likely have the needed effect.

For example, a January 2000 field review of Navy and Air Force air combat training by Committee staff provides an example of problems that continue to exist. The skills of our pilots deployed to combat are declining, the quality of our infrastructure to train pilots is in serious decline, and the current DoD plan implies continual decline. It is particularly ironic – and disturbing – that such a decline has been permitted despite the US reliance on air power. If this premier element of our combat power has been permitted to atrophy, how much worse off are the other combat arms? Because the current and future readiness of US combat forces appears to have been seriously compromised, what appears to be a spending increase for readiness in the O&M budget should, instead, be viewed as inadequate.

- < Military Personnel: The DoD personnel budget requested by the President would increase spending by \$2.1 billion to 75.8 billion. This amount includes a 3.7 percent across-the-board pay raise for enlisted personnel, officers, and civilian employees in the Department of Defense. The overall Military Personnel budget would increase, in real terms, by 1.0 percent to pay for this and other expenses.

¹“Funding Risks in the Administration’s Plan for National Defense for 1997 to 2001,” Congressional Budget Office, January 30, 1997. Although this briefing is from 1997, it describes a historic trend line that has not been reversed by subsequent DoD action. Briefing slides presented by DoD on the 2001 budget show a similar historic increase in “Service O&M Dollars/Per End Strength.”

²See “Quarterly Readiness Report to the Congress,” Department of Defense, July-September 1999; “Top Carrier Warplanes Run Low on Parts,” Defense Week, John Donnelly, January 18, 2000; “Army Aviation in ‘Crisis,’” Defense Week, Ron Laurenzo, January 18, 2000; “Air Force Needs Additional Six Months to Recover from Kosovo,” Defense Week, Vince Crawley, January 3, 2000.

A new initiative from Secretary of Defense Cohen will increase housing allowances for military personnel who live off-base. The new allowance, however, still requires these personnel to pay, on average, 15 percent of their housing costs out of their own pocket. The Administration plans to gradually eliminate this additional expense for military personnel by the year 2005. Thus, this expense will continue to be an issue of concern for the approximate 6,000 military personnel who live off base and receive such inadequate overall compensation that they qualify for food stamps.

While only a portion of it is funded in the Military Personnel account, a major personnel initiative in the 2001 DoD budget is modifications to the Defense Health Program for active duty personnel, dependants, and military retirees. These initiatives include the elimination of co-pays for active duty family members in Tricare Prime, the expansion of the Tricare Prime Remote program, and a major study of additional improvements. The costs of these initiatives is described by DoD to be less than \$500 million per year. However, legislation for additional initiatives has been introduced in Congress, and in some cases, these initiatives are costly; some may cost between \$5 and 10 billion per year. While the deficiencies in the Defense Health Program are clearly serious, cost and the impact on other defense programs are certainly major considerations.

For 2000, Congress shifted the last military pay day into 2001. The President's budget would move that \$3.5 billion back into 2000.

- < Procurement: The 2001 request would increase weapons purchases from \$54.2 billion to \$60.3 billion. Achieving a procurement budget of \$60 billion was initially sought by General Shalikasvili, the former Chairman of the Joint Chiefs of Staff, for the 1998 budget. The increase to \$60 billion is not just overdue, it is also inadequate. CBO has estimated that a procurement budget of \$90 billion is needed to address DoD's procurement needs.³

Compared to last year's procurement request, this years plan includes four C-130J transport aircraft, at \$50-60 million per aircraft (depending on type), a new aircraft carrier for \$5.2 billion in 2001, and additional Navy combat and logistics ships, with costs ranging up to \$800 million per ship. The request would also initiate F-22 fighter production for 10 aircraft for \$2.55 billion, or \$250 million per unit for these aircraft, a calculation that does not include the R&D invested in the F-22.

For years, analyses from CBO, GAO, the private sector, and even inside DoD have found that

³“On Aging Military Equipment,” Testimony Congressional Budget Office to the House Armed Services Committee Military Procurement Subcommittee, February 24, 1999.

4 BUDGET BY FUNCTION

the current and future procurement budget is inadequate to purchase what DoD plans to buy, let alone what is needed to address serious problems, such as the over-age of combat aircraft, surface combat ships, helicopters, and armored vehicles.⁴ Major changes in the procurement budget (such as large increases in the purchases of aircraft, ships, and vehicles; significantly lower unit costs, and offsets from marginal programs) would be needed to address these problems; such changes are not a part of the 2001 request and traditional underfunding problems will clearly persist. The result will be even higher unit costs of major systems while the numbers of systems purchased declines and the overall inventory continues to age.

- < Research and Development: The R&D budget would actually decrease from \$38.4 billion to \$37.9 billion in 2001, a nominal decline of 1.3 percent and a real decline of 3.2 percent. The Administration's plan does contain a new \$2.2 billion increase for missile defense, but it would occur only over a five year period. Missile defense research would decline from \$5.0 billion in 2000 to \$4.7 billion in 2001.
- < Military Construction: The "MilCon" budget would also decline from \$8.4 billion to \$8.0 billion. This \$400 million decrease is a 5.0 percent nominal reduction, and a 6.8 percent real reduction. The President has once again requested authority to conduct two more rounds of base closures ("BRACs") in 2003 and 2005. Additional costs to close and clean up these unspecified bases are estimated at \$2.1 billion; eventual \$3+ billion annual savings are projected after the initial costs are sunk.
- < 2000 Supplemental: The new budget includes a request for an "emergency" supplemental for 2000 for \$2.3 billion. This would pay for ongoing US military operations in Kosovo in the Balkans and East Timor in Asia, aid to Columbia, and storm damage to US defense facilities. The Supplemental also requests that provisions Congress enacted for 2000 to delay certain progress payments to DoD contractors and to similarly delay other "prompt" payments be repealed.
- < Department of Energy Defense Activities: For Atomic Energy Defense Activities in DoE (subfunction 053), the 2001 budget proposes \$13.1 billion in BA, a \$927 million increase over 2000. For Defense Environmental Restoration and Waste Management, \$4.6 billion is requested, a \$85 million increase from 2000. For Weapons Activities, \$4.5 billion in BA is

⁴See "Future Years Defense Program: Funding Increase and Planned Savings in Fiscal Year 2000 Program Are at Risk," General Accounting Office, GAO/NSIAD-00-11, November 1999; "Plans for Defense: Will It All Fit?," Congressional Budget Office briefing to Senate Budget Committee, June 1998; "At the Dawn of the New Millennium: Averting the Coming DoD Train Wreck," The Center for Strategic and International Studies, Dr. Dan Goure, May 1998;

requested, compared to \$4.4 billion in 2000.